

COMMITTEE ON GOVERNMENT REFORM

Subcommittee on Energy and Resources

DARRELL ISSA, CHAIRMAN



Oversight Hearing:

Royalty Relief and Price Thresholds III

July 27, 2006, 2:00pm
Rayburn House Office Building
Room 2154

OPENING STATEMENT

Good afternoon and welcome to today's hearing.

Over the past five months, this Subcommittee has investigated the absence of price thresholds in deepwater leases signed in 1998 and 1999. GAO estimates that the lack of price thresholds will cost the American people nearly ten billion dollars. As of today, we have lost nearly two billion dollars. This is a financial disaster.

In 1995, Congress enacted the Deep Water Royalty Relief Act to provide financial incentives to companies to produce oil and natural gas from our deep coastal waters. This came at a time when oil and natural gas prices were low and the interest in deepwater drilling was lacking.

As an incentive, the Act allows oil and gas companies to forego paying royalties to the Department of Interior for a specific volume of oil or gas produced. This allows companies to recoup their capital investment before having to pay royalties on federal leases.

To ensure that companies do not receive windfall profits, the Act also provides for price thresholds. In other words, a company is allowed to operate royalty-free until either a certain volume of production was achieved, or the market price for oil or gas reached a specified ceiling. These two provisions are known as volume suspensions and price thresholds, respectively.

These volume suspensions and price thresholds were legislated by Congress to avoid the situation we find ourselves in today. At nearly \$74 per barrel, these price thresholds have long been exceeded. Because of the missing price thresholds in 1998 and 1999 leases, oil

companies are unduly profiting on resources that belong to the American people. I repeat: these resources belong to the American people, not the oil companies. They are leased to the oil companies.

The Subcommittee staff has obtained critical information from witness interviews and an extensive document review. We have also learned a lot from our two previous hearings. In fact, testimony from our June 21st hearing provides the foundation for today's hearing.

At the last hearing, Paul Siegele of Chevron Corporation testified that Chevron employees discussed missing price thresholds with Interior Department officials in 1998. Upon that revelation, I asked him to provide additional information to Subcommittee staff. He did. I received a letter from Chevron. I ask unanimous consent that the letter submitted by Chevron be included in the record.

This letter details how two Chevron executives met with Chris Oynes and his staff on multiple occasions. Mr. Oynes is the Director of MMS' Gulf of Mexico regional office. At these meetings, they purportedly informed Mr. Oynes that deepwater leases in 1998 and 1999 did not contain price thresholds.

This latest development is deeply disturbing because Mr. Oynes told the Subcommittee staff in May that neither he nor his staff had learned of the missing price thresholds until the year 2000. Furthermore, his written testimony states that he does not recall any such conversations with Chevron employees. We must resolve this discrepancy.

Before us today, we have the two Chevron employees who say they notified Mr. Oynes of the missing price thresholds in 1998 and 1999. They are Mr. Keith Couvillion and Mr. Gordon Cain. They will testify first.

I would like to take this opportunity to commend Chevron Corporation for coming forward with this critical information and agreeing to testify. Your contributions are invaluable to this investigation. But Chevron wasn't the only company present at those quarterly meetings. Apparently, officials from ExxonMobil and ConocoPhillips were also at these meetings, yet they have not come forth. Only Chevron comes forward today, and I thank Chevron for that.

We also have Mr. Chris Oynes and his deputy, Mr. Charles Shoennagel. They will comprise our second panel.

I intend to resolve these conflicting accounts today. If Mr. Oynes and his staff knew about this problem in 1998, and had taken corrective measures, the Subcommittee estimates that Mr. Oynes could have saved the American people at least five billion dollars.

With that, I yield to the Ranking Member, Ms. Watson, for her opening remarks.